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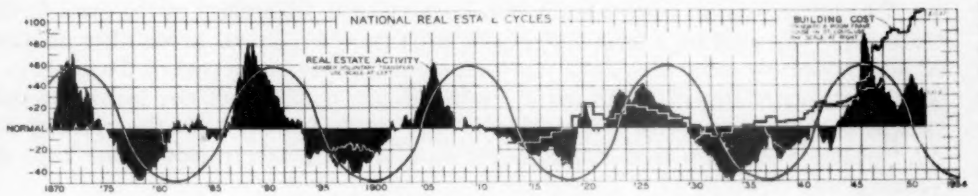
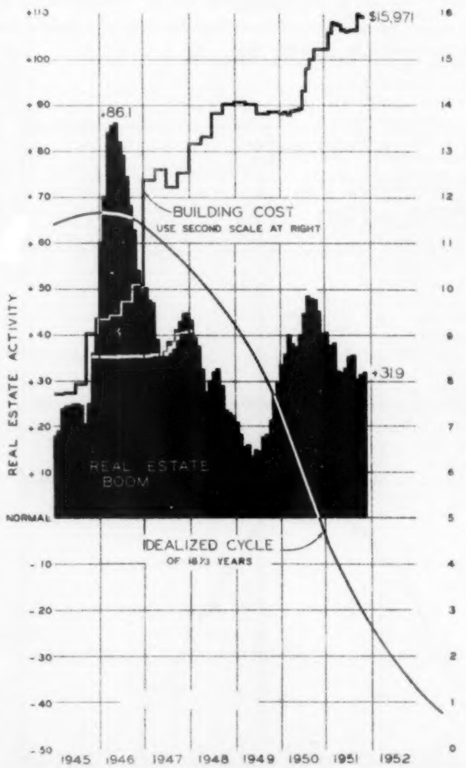
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS





Although still in a downward trend, real estate activity continues to be at boom level.

The past year has been a rugged one for the mortgage men - but business has been good; next year, less rugged and business slightly lower.

Everyone we know (including Roy Wenzlick & Co.) missed the boat on residential construction. The third straight year of 1,000,000 or more starts is now a cinch.

Some day they will start down and drop between 20% and 25%. Nobody knows when, but 1952 might see the start of this drop.

Once again moves to an all-time high.

REAL ESTATE ACTIVITY Despite the dire predictions of chaos and collapse that followed October 12, 1950 (D-Day for Regulation X), the real estate industry is still rocking along at a boom level. To be sure, the feverish pitch has cooled somewhat, but most sections of the country are continuing to enjoy a level of real estate activity considerably above average. As a matter of fact, activity in some major cities is now well above the level it occupied on that fateful day more than 13 months ago. Foremost among these cities are Des Moines, Iowa, and Kansas City, Missouri, where activity is 19% and 27% (respectively) above the October 1950 level.

To retrogress for a moment to our January 1951 "Summary of the Real Estate Outlook,"* we said regarding real estate activity: "Will in all probability decline; however, we expect a slow drop, particularly during the early part of the year...." The accuracy of this guess is borne out by the fact that the activity index has been in a slow downward trend during all of 1951. In December 1950 the reading was 40.1 points above the long-range computed normal, and in November 1951 the reading was down to 31.9 points above normal.

Our estimate of the 1952 situation is not yet complete, but a preview of our guesses would probably reveal expectation of a continued slow decline. This

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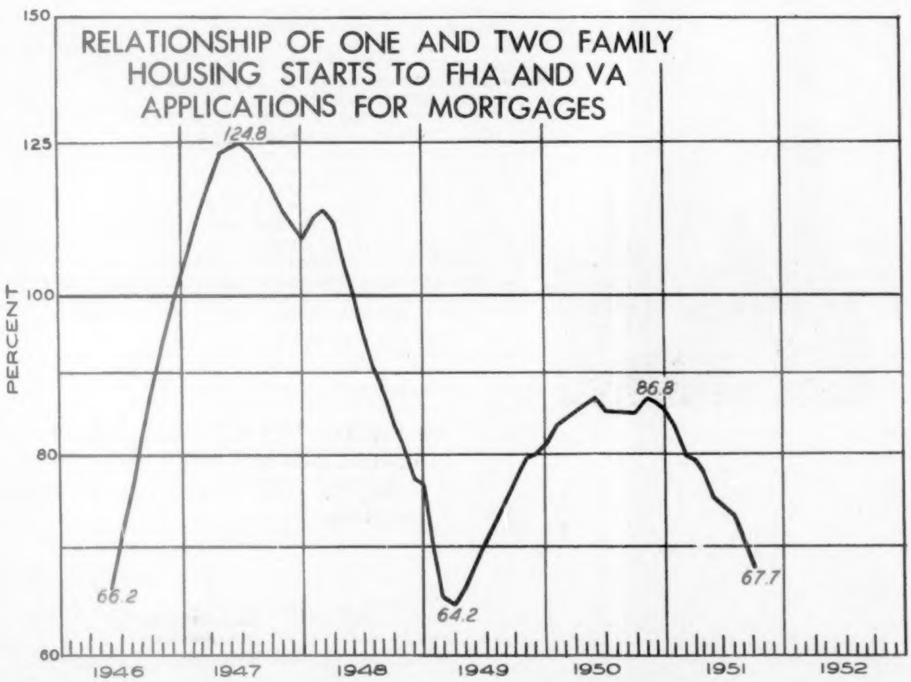
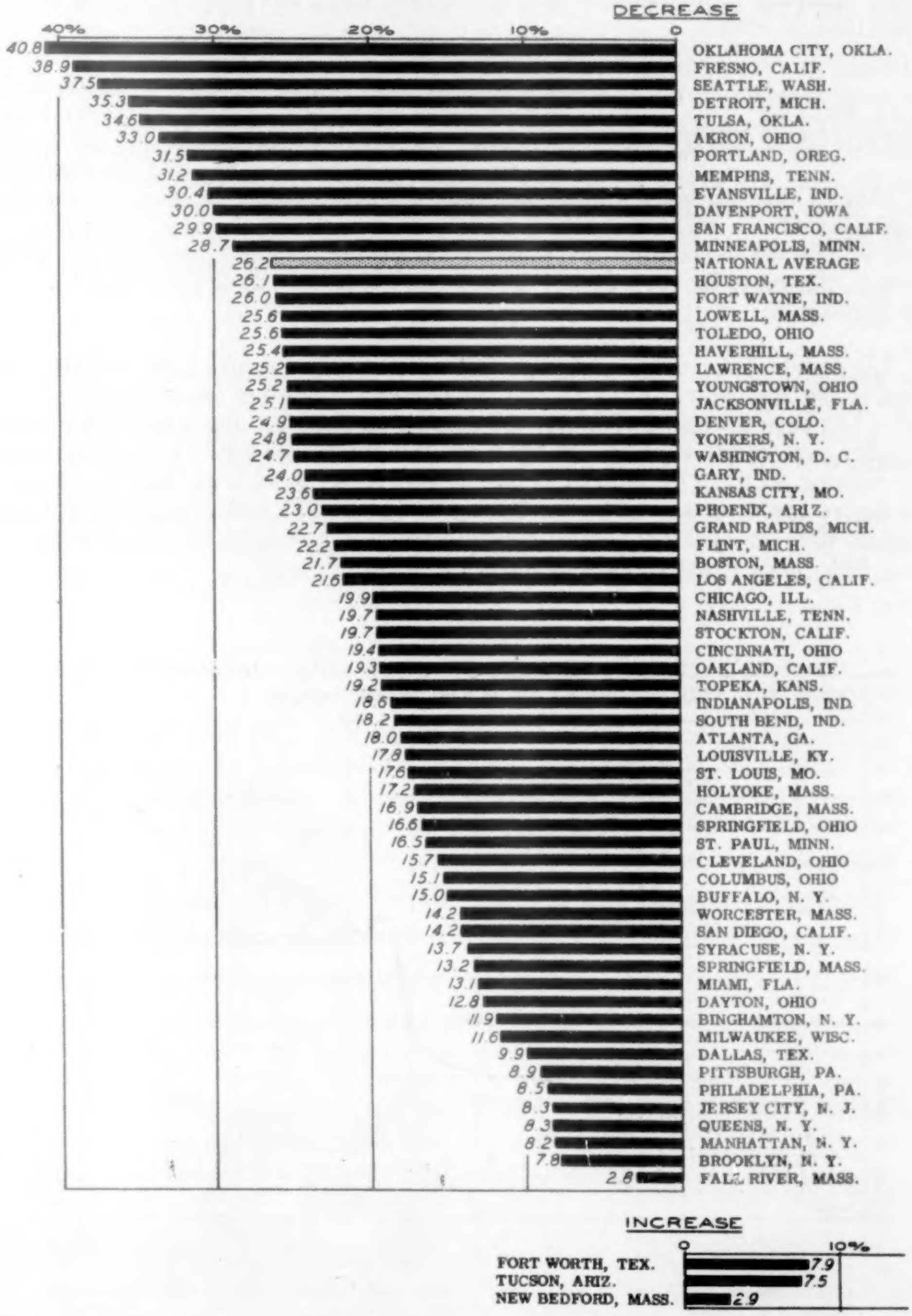
*Real Estate Trends - January 24, 1951, Volume XX, No. 2.



PERCENTAGE CHANGE IN MORTGAGE ACTIVITY

(FROM AUGUST 1950 – NOVEMBER 1951)

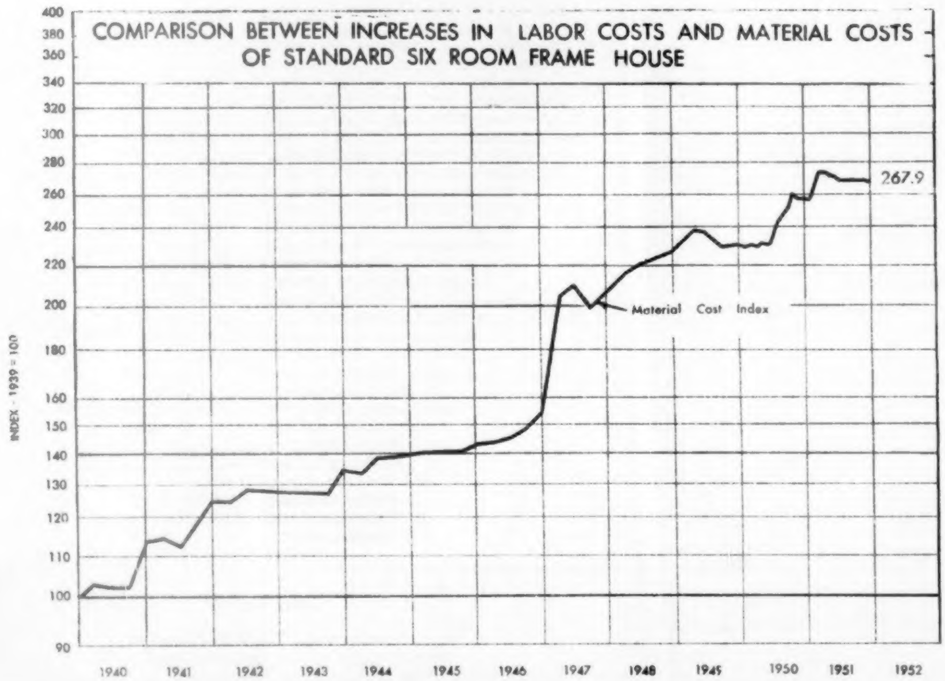


decline will probably be characterized by spotty, localized dips and recoveries as the influence of the defense program makes itself felt more heavily in some areas than in others.

REAL ESTATE MORTGAGE ACTIVITY

The closing year has been about as formidable a boom year as most mortgage men ever hope to suffer through. Regulation X and the quick change accomplished by the Federal Reserve cut sharply into mortgage volume and caused confusion that, at times, bordered on consternation. Recent weeks, however, have seen definite signs of improvement in both the demand for and supply of mortgage funds. Activity in VA-FHA loans continues to be very weak. This is particularly true insofar as VA loans are concerned.

The chart at the bottom of page 594 reflects the drastic drop in FHA-VA loans in the last year. Even though the number of one- to two-family housing starts has been declining steadily, the number of FHA-VA applications has been dropping even more rapidly. A year ago the number of FHA-VA applications was running 86.6% of the number of one- to two-family units being started. Today, that figure has dropped to 67.7%. During this period FHA-VA applications have dropped 43%. In contrast, all mortgage activity (not strictly comparable) is off some 26%. (See chart on page 595.)



INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)

December 1951

SIX-ROOM BRICK HOUSE
(FRAME INTERIOR)*
Content: 23,100 cubic feet
1,520 square feet
Cost 1939: $ 6,400
(27.7¢ per cubic foot; $ 4.21 per square foot)
Cost today: $17,130
(74.2¢ per cubic foot; $11.27 per square foot)
INCREASE OVER 1939 = 167.7%

FIVE-ROOM BRICK VENEER HOUSE*
Content: 24,910 cubic feet
1,165 square feet
Cost 1939: $ 5,440
(21.8¢ per cubic foot; $ 4.67 per square foot)
Cost today: $14,522
(58.[illegible]¢ per cubic foot; $[illegible] per square foot)
INCREASE OVER 1939 = 166.9%

SIX-ROOM FRAME HOUSE*
Content: 24,288 cubic feet
1,650 square feet
Cost 1939: $ 5,671
(23.[illegible]¢ per cubic foot; $3.[illegible] per square foot)
Cost today: $15,971
(65.8¢ per cubic foot; $9.68 per square foot)
INCREASE OVER 1939 = 181.6%

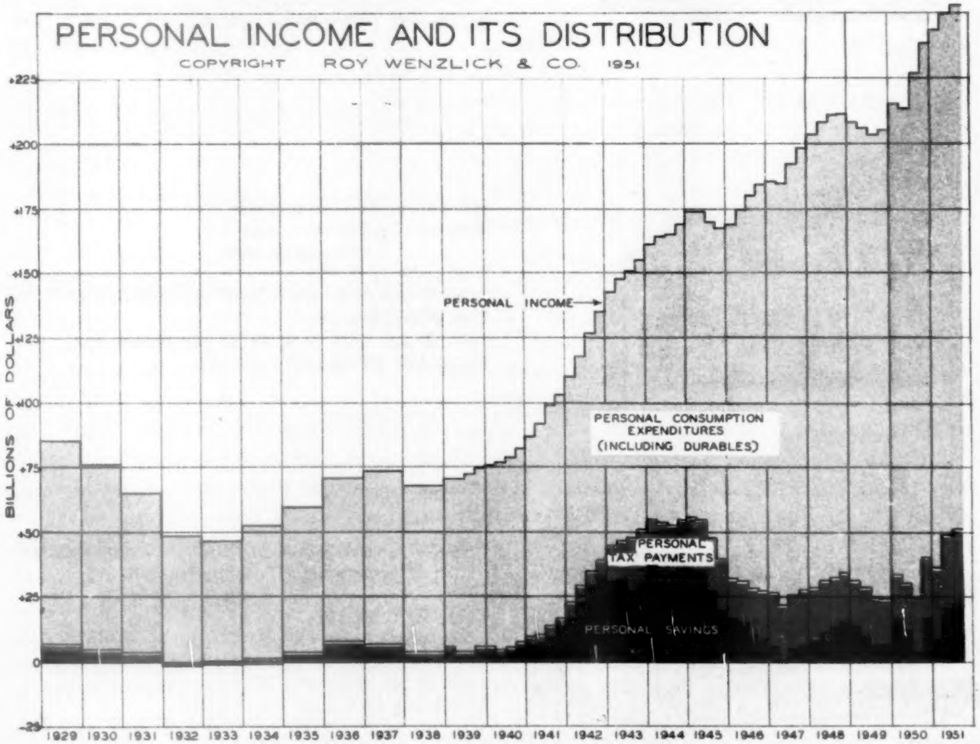
6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT
Content: 12,119 cubic feet
992 square feet
Cost 1939: $3,117
(25.6¢ per cubic foot; $3.14 per square foot)
Cost today: $8,543
(70.5¢ per cubic foot; $8.61 per square foot)
INCREASE OVER 1939 = 174.1%

*Costs include full basement.

RESIDENTIAL CONSTRUCTION ACTIVITY

Once again everybody made the same mistake. All of the professional guessers thought that the government meant what it said about the target of 850,000 housing units for 1951. It has been apparent for several months that either the government was insincere (possibly the mildest charge leveled toward Washington recently), or that its spokesmen simply didn't know what they were talking about. Moreover, it has long been crystal-clear to everybody except Congress that the credit regulations were not really hurting the residential construction industry. Despite credit regulations and material shortages, home-building volume in 1951 is going to run close to 1,100,000 units - final proof that regulations and shortages were vastly overrated and overstated in 1951.

The story in 1952 will be different. We doubt that anyone will have the brass to complain about the present puny regulations, but the shortage situation will be much more real. This is especially true of copper products. However, we still can't see a protracted steel shortage and believe that it will be over sooner than most people think it will. This last belief is naturally predicated on the assumption that Messrs. Murray and Ching will be able to resolve their differences with Mr. Fairless without a steel strike.



RESIDENTIAL CONSTRUCTION COSTS

A look at the costs of the four houses on page 597 shows that they have declined slightly from their November figure. Minor increases in metal items were slightly offset by minor decreases in lumber items, thus resulting in the small decrease in total cost. There have been some rather substantial drops in wholesale prices of some types of lumber, but so far very few of them have been reflected at the retail level. While retail lumber prices will probably decline during the next few months, we do not expect any general weakening of construction costs. For one reason, labor costs will, no doubt, continue to inch upward in one way or another. Other factors that will hold construction costs high are the delays caused by material shortages and gray market prices now creeping into the procurement of metal items.

On page 596 is a chart comparing the increases since 1939 in material costs with those in labor costs. These costs are for the standard six-room frame house in the St. Louis area. Gray market prices are not included, and labor efficiency is estimated at 90%. Although material costs still make up the largest single direct expense in residential construction, their increase since 1939 has been a good deal less than has the increase in labor costs.

PERSONAL INCOME

The chart at the bottom of page 598 shows that personal incomes continued their long and steady rise during all of 1951. It's always a little difficult to get a clean comparison between the personal income of one year with the personal income of another year. This comparison becomes more difficult as the distance between the two periods increases. This is because the comparison of the raw dollar figures is usually cluttered up with changes in the purchasing power of the dollar and with changes in population.

For example, personal expenditures in 1951 will run close to $200 billion, whereas they were approximately $50 billion in 1932. This comparison indicates that the American Consumer is four times better off in 1951 than he was in the depths of the depression. This is hardly the case. All of us know that the purchasing power of the dollar has slipped drastically since the dark days of 1932. In fact, the present purchasing power of the dollar is only 55% of the 1932 level. Therefore, the 1951 total of $200 billion in personal consumption expenditures becomes a paltry $110 billion when expressed in terms of 1932 purchasing power. Moreover. the number of households has increased roughly 50% during the 19-year period, so we have 50% more "spending units" to help dispose of this $110 billion. After correcting for this change in the number of households we find that in 1932, personal consumption expenditures amounted to $1, 640 per household, while in 1951 they amounted to $2, 440 (in 1932 purchasing power) per household. Therefore, instead of having four times 1932 purchasing power in 1951, the American Consumer actually has 50% more purchasing power. A similar comparison made between 1940 and 1951 shows a rise of 20% in purchasing power for the personal consumption expenditures of the average household.

HOUSING DEMAND

All good things must come to an end - and regardless of how painful it must be, the mortgage lenders and home builders cannot blink the fact that the market for homes has receded considerably. This certainly does not mean that home building and mortgage lending are going to come to a standstill, but it does mean that powerful and unhealthy governmental stimulants will be necessary to maintain anything like the boom of the past three years.

Publication of the detailed figures of the 1950 census is painfully slow. So far, they do not offer irrefutable evidence that the housing shortage is over. However, scattered releases, on a nation-wide basis, indicate that the wild and hectic scramble for shelter should be a thing of the past. Our guess is that the present defense housing program will be the last government support to the housing market that will not be clearly labeled "pump-priming." From April 1940 to April 1950 the number of residential units increased by 23%, and the number of families increased by 22%. However, we have added nearly 2,000,000 nonfarm dwelling units to the total since then, while the increase in the number of nonfarm families has been substantially less than 2,000,000.

Census figures just released show that in 1940, 6.8% of all married couples were without their own households. By April 1951, this figure had dropped to 4.9%.